

## DEPARTMENT OF FINANCE BILL ANALYSIS

**AMENDMENT DATE:** June 15, 2010  
**POSITION:** Neutral, note concerns  
**SPONSOR:** State Treasurer Bill Lockyer, State  
Superintendent of Public Instruction Jack  
O'Connell

**BILL NUMBER:** AB 2560  
**AUTHOR:** J. Brownley  
**RELATED BILLS:** SB 205 (2010)

### **BILL SUMMARY:** Education Finance: Federal Tax Credit Bond Volume Cap

This urgency bill would authorize the Superintendent of Public Instruction (SPI) and California School Finance Authority (CSFA), as the responsible governmental agencies, to distribute \$720,058,000 in federal American Recovery and Reinvestment Act Qualified School Construction Bonds (QSCB) in 2010 to local educational agencies (LEAs) and charter schools based on specified criteria.

### **FISCAL SUMMARY**

This bill authorizes the SPI to distribute \$651,652,000 federal QSCBs to LEAs and the CSFA to distribute \$68,406,000 federal QSCBs to charter schools. School districts would have six months from the date the district receives its QSCB allocation to issue QSCBs or must return the funds to the SPI for reallocation. This bill would create minor, but absorbable General Fund costs for the SPI and CSFA to allocate the QSCB allotments to LEAs and charter schools.

### **COMMENTS**

The Department of Finance is neutral on this bill for the following reasons:

- This bill would designate lead agencies for the oversight and allocation of 2010 QSCBs to LEAs and charter schools. Without this designation, the state is unable to receive and allocate these 2010 QSCBs. QSCBs will provide LEAs and charter schools with \$720,058,000 in federal bonding authority to construct or modernize school facilities. Previous legislation, Chapter 11 of the Statutes of 2010 (SB 205, Hancock), designated the SPI and CSFA as the lead state agencies for distributing only the 2009 allocation of QSCBs. This bill is necessary to distribute the 2010 allocation of QSCBs.
- This bill would complement the Governor's already substantial investment in school facilities infrastructure through the School Facilities Program, while ensuring that all facilities constructed with QSCBs are Field Act compliant. In addition, this bill furthers the Governor's commitment to construct additional environmentally friendly school facilities.

However, we note the following concern:

- This bill would allow LEAs to use QSCB allocations to supplant local school facilities funds used to receive matching state school facilities bond funds under the School Facilities Program instead of supplementing currently available local and state funds used for school facilities construction. The Administration would support the use of QSCBs to supplement and not supplant currently available school facilities construction funds.

Analyst/Principal (0341) T. Todd	Date	Program Budget Manager Jeannie Oropeza	Date
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Department Deputy Director	Date
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Governor's Office:	By:	Date:	Position Approved _____
			Position Disapproved _____

<b>BILL ANALYSIS</b>	Form DF-43 (Rev 03/95 Buff)
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## AUTHOR

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## ANALYSIS

### A. Programmatic Analysis

The federal government authorized QSCB through the American Recovery and Reinvestment Act (ARRA) of 2009. The bonds provide federal tax credits for bondholders in lieu of interest in order to reduce an issuer's cost of borrowing. The ARRA provides for an allocation to each state, along with separate allocations for large school districts. Guidance provided by the Internal Revenue Service indicates that the allocation for California is \$720,058,000 for 2010. The United States Department of the Treasury provided additional allocations totaling \$546,568,000 for 2010 directly to California's eleven largest urban districts. Those districts may choose to re-allocate any unused QSCB balances to the State of California. SB 205, Hancock, authorized the SPI and CSFA to distribute QSCBS totaling \$773,525,000 to LEAs and charter schools from the State's 2009 QSCB federal bond allocation. The federal government allocated \$581,966,000 directly to the State's eleven largest school districts.

According to the Internal Revenue Service, all QSCB proceeds must be used for the construction, rehabilitation, or repair of a public school facility or for the acquisition of land on which such a facility is to be constructed and must be issued by a state or local government within the jurisdiction of the LEA.

This urgency bill would authorize the SPI and CSFA as the responsible governmental agencies for distributing \$720,058,000 in federal ARRA QSCB in 2010, to school districts and charter schools. This bill would specify that eligible school districts would be required: 1) to have Division of the State Architect project approval for any projects funded with QSCBs; 2) to have local voter approved bond authority; and 3) meet or exceed the Collaborative for High Performing Schools or Leadership in Energy and Environmental Design criteria. School districts or charter schools that received a 2009 QSCB allocation from either the SPI, CSFA or the United States Department of the Treasury will be ineligible for a 2010 QSCB allocation. The SPI will allocate all 2010 QSCBs to school districts based specified criteria. The CSFA will base all 2010 QSCB allocations provided to charter schools on the criteria developed by the CSFA for the allocation of 2009 QSCBs.

## B. Fiscal Analysis

See Fiscal Summary

		SO	(Fiscal Impact by Fiscal Year)							
Code/Department		LA	(Dollars in Thousands)							
Agency or Revenue		CO	PROP						Fund	
Type		RV	98	FC	2010-2011	FC	2011-2012	FC	2012-2013	Code
6110/Dept of Educ		SO	No		-----	No/Minor Fiscal Impact	-----			0001
0985/School Fin		SO	No		-----	No/Minor Fiscal Impact	-----			0001
6110/Dept of Educ		LA	No		-----	See Fiscal Summary	-----			0890
0985/School Fin		LA	No		-----	See Fiscal Summary	-----			0890
<u>Fund Code</u>	<u>Title</u>									
0001	General Fund									
0890	Trust Fund, Federal									